Summary of Filing Utilities' Proposal to Modify Aspects of Stage 1 Pricing Model

Background

Recently the Filing Utilities have worked to develop recommendations to address some critical pricing issues they feel need to be resolved before moving ahead with a December 1, 2001 FERC filing. These issues related primarily to: (1) transfer payment obligations and other elements of the Stage 1 pricing model associated recovery for short-term transmission usage; (2) export fee issues; (3) potential loss of revenues from converted long-term contracts that expire during the Company Rate Period; and (4) treatment of transactional scheduling fees.

With respect to short-term revenue issues, the elements of the Stage 1 pricing model that many Filing Utility representatives consider to be problematic are:

- Lost revenue amounts (revenues previously received from unaffiliated marketers and parties outside the RTO West system for short-term transmission usage) – these are the entries that appear on line 26 of the summary pages to the July 23, 2001 Stage 1 Pricing Model Illustrative Spreadsheets;

- NWPP short-term revenues (revenues previously received from utilities within the Northwest Power Pool other than Filing Utilities for short-term transmission usage) – these are the entries that appear on line 24 of the summary pages to the July 23, 2001 Stage 1 Pricing Model Illustrative Spreadsheets;

- "Internal" transfer payments between a Filing Utility transmission function and its affiliated merchant function to cover the affiliated merchant's short-term use of the Filing Utility's own system – these are the entries that appear on line 28 of the summary pages to the July 23, 2001 Stage 1 Pricing Model Illustrative Spreadsheets; and

- Short-term transfer payments between Filing Utilities for short-term use of each other's systems – these are the entries that appear on lines 32 and 34 of the summary pages to the July 23, 2001 Stage 1 Pricing Model Illustrative Spreadsheets.

Proposal for Modifying RTO West Stage 1 Pricing Model

The following is an outline of the elements of the Filing Utilities' proposal to address the pricing-related issues described above. **The proposal constitutes a WORKING MODEL only and is made with the understanding that we will need to model the pricing proposal as modified to determine whether these recommendations are acceptable in practice.**

- Recovery for lost revenue amounts, NWPP short-term transfer payments, and Filing Utility transfer payments will be addressed through a single "pool" of revenues.

    ❖ *Issue: This approach may need to be revisited if there are significant changes from current expectations about participation of NWPP transmission owners or the amount of revenue at issue.*

- The Filing Utilities together will agree to "cap" the maximum amount of Filing Utilities' short-term transfer payment amounts that would be included in the pool and therefore recovered through a grid management fee. Initial discussion as to where this cap should be set suggested that the cap should be in the range of the combined amount of lost revenues and NWPP short-term transfer payments.

    ❖ *Issue: How do we set the cap?*

- The Filing Utilities making short-term transfer payments and those receiving them will work together to (a) decrease the amount of any short-term transfer payments that exceed the agreed-upon cap; and (b) to the extent possible, shrink the size of the pool to be recovered through a grid management fee. They will do this with a set of "tools." The candidate tools discussed so far are:

    - The paying and receiving parties will do their best to work together, abiding strictly by the availability and priority rules of the FERC Open Access Transmission Tariff, to find ways to (a) convert short-term service to long-term service where feasible (with the working assumption that the substitute long-term contract would continue for the duration of the Company Rate Period), considering opportunities on existing facilities as well as new capacity that might be built in the future; and (b) where conversion to long-term service is not workable, investigate whether there are some ways to provide value in exchange for short-term transfer payments, such as "partial" or seasonal FTRs or issuing "scrip" in return for the short-term transfer payments (scrip could be used to buy FTRs, RTRs, and NTRs). These tools for seeking some form of value to give in exchange for short-term transfer payments will also be available for Filing Utilities to use with their affiliated merchants.

    ❖ *Ideas for additional tools to reduce the pool?*

    - To the extent the paying and receiving parties are not able to convert short-term transfer payments (above the cap) into long-term rights in some form, the parties will each bear 50% of the remaining short-term transfer payment amount. For example, if the amount of short-term transfer payment obligation above the pool's cap that Idaho owes BPA is $3 million, then Idaho and BPA would do what they can to translate the short-term obligations into long-term commitments with corresponding FTRs. If they are able to convert $2 million of the original $3 million, then after the translation Idaho and BPA would each bear $500,000 of the $1 million that was not translated.

  - The working assumption for this recommendation is that the test year for measuring short-term transfer payment obligations will be 2000.

- The amount of the short-term revenue pool within the cap (lost revenues + NWPP short-term + Filing Utility transfer payments not translated or allocated between payer and receiver) will be combined with RTO West's own cost recovery requirements (RTO West start-up, capital, and operating costs). This aggregate amount (pool + RTO West costs) will be recovered through a grid management fee that will be applied to all RTO West schedules. At the same time, there would be no separate, additional fee for export transactions.

  - ❖ *Issue: What constitutes a "schedule" for purposes of applying the grid management charge?*

- All revenues received from RTO West's auctions of FTR, RTR, and NTR revenues will be credited against the combined amount (pool + RTO West costs) to be recovered through grid management fees.

- With respect to "internal" (affiliated merchant) short-term transfer payments, the Filing Utilities propose that these amounts not be included in the pool to be recovered through a grid management fee. Rather, each Filing Utility will have the option to issue "scrip" to its merchant function in exchange for short-term transfers payments (which the merchant can use to purchase FTRs, RTRs, and NTRs for capacity on the affiliated Filing Utility's facilities). If a Filing Utility does not elect to issue scrip, it will be at the discretion of that Filing Utility to resolve with its merchant function how to handle the transfer payment internally (subject to the limitation that a Filing Utility's treatment of this issue cannot result in an increase to long-term transfer payment obligations of other Filing Utilities).

- With respect to long-term converted contracts that expire before the end of the Company Rate Period (which ends long-term transfer payment obligations and also frees up the associated FTRs), RTO West will assign to the Filing Utility that provided service under the expired contract all the revenues from future sales of the freed-up FTRs (to replace revenues lost from the extinguished long-term transfer payments).

- Key elements of the Stage 1 pricing model that are not modified by this proposal include:

  - The basic concept of a load-based access fee charged through Company Rates;

  - The long-term transfer payment obligations among Filing Utilities;

  - The length of the Company Rate Period (which will remain through 2011); and

  - The lack of export fees.